

Message Text

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ACTION ARA-14

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E.O. 11652: N/A

TAGS: BEXP, BL, IDB

SUBJECT: ALLEGED FRAUD IN IDB FINANCED ROAD ENGINEERING DESIGN
PROJECT IN BOLIVIA

1. THE EMBASSY WAS APPROACHED BY A REPRESENTATIVE OF BROWN AND ROOT CO. (C.W. WEBER, HOUSTON) ON JULY 3 TO SEEK EMBASSY ASSISTANCE IN WARDING OFF WHAT THEY CONSIDERED CORRUPT PRACTICES BY SEVERAL PARTIES IN THE SUBJECT BID. BROWN AND ROOT IS ASSOCIATED FOR THIS PROJECT WITH GREENHORNE AND O'MARA, COAS AND SIDE OF BOLIVIA. THE PROJECT IS A PAVED ROAD BETWEEN UNCIA, SUCRE AND MUYUPAMPA FINANCED BY THE INTERNATIONAL DEVELOPMENT BANK. AFTER LISTENING TO BROWN AND NEOOT'S EXPLANATION OF ALLEGED BRIBES GIVEN BY THE SECOND COMPANY IN THE QUALIFICATIONS RANKINGS, THE ACTING POL/ECON COUNSELOR DECIDED TO MAKE A DEMARCHE AT THE SERVICIO NACIONAL DE CAMINOS (SNC) AND WITH THE LOCAL DIRECTOR OF THE IDB. THE CHARGES WERE THAT THE SECOND COMPANY, ENGINEERING SERVICES INTERNATIONAL, AN ISRAELI COMPANY THAT HAD FORMED AS A BOLIVIAN COMPANY JUST BEFORE THE LICITATION DEADLINE, HAD PAID BRIBES TO MEMBERS OF THE SNC AND TO THE CIVIC COMMITTEE OF CHUQUISACA AND PERHAPS IN CERTAIN MINISTRIES AND THE OFFICE OF THE PRESIDENT. THE LATTER PUT PRESSURE ON THE GOVERNMENT BY PUBLICLY ANNOUNCING THAT THEY WOULD CALL ON THE PEOPLE OF THE DEPARTMENT

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OF CHUQUISACA TO ABSTAIN FROM VOTING IN THE JULY 9 ELECTIONS IF THE DECISION WAS NOT MADE BEFORE THEN TO AWARD THE PROJECT.

2. ON THE EVENING OF JULY 3, THE TECHNICAL COMMITTEE (JUNTA DE MONEDAS), MADE UP OF REPRESENTATIVES FROM VARIOUS MINISTRIES, THE SNC AND INALPRE (PREINVESTMENT INSTITUTE), DECIDED THAT BROWN AND ROOT QUALIFIED BUT THAT THE PRICE

BEING QUOTED BY B&R WOULD HAVE TO BE APPROVED BY HIGHER LEVEL OFFICIALS OF THE GOB SINCE IT WAS HIGHER THAN THE ORIGINAL ESTIMATE MADE BY SNC. AT THIS POINT, THE EMBASSY FELT ITS DEMARCHES HAD HAD AN IMPACT AND EVERYONE WAS OPTIMISTIC. THE ORIGINAL PRICE THAT B&R HAD QUOTED WAS \$12,137,000 BUT IN NEGOTIATIONS WITH A NEGOTIATING COMMISSION IT HAD BEEN REDUCED TO \$8,271,000. HOWEVER, THE SNC HAD REPORTEDLY ESTIMATED THE COST AT ONLY \$5 OR \$6 MILLION DOLLARS. THE RESULT WAS THAT HIGHER LEVELS OF THE GOB (BELIEVED TO BE MINISTRY OF PLANNING) TURNED DOWN THE PROSPECT OF PAYING MORE THAN THE ORIGINAL ESTIMATE AND BROWN AND ROOT WAS THROWN OUT AND THE SECOND ENVELOPE WAS OPENED (ISRAELI COMPANY).

3. IT IS UNLIKELY THAT THE ISRAELI COMPANY WILL QUALIFY BECAUSE IT WILL USE ISRAELI TECHNICIANS AND WILL THUS NOT QUALIFY UNDER THE GUIDELINES FOR THE PROJECT ESTABLISHED BY THE IDB. THUS, THE BRIBES SUPPOSEDLY PAID BY THAT COMPANY MAY NOT PAY OFF. HOWEVER, THE SITUATION IS MORE COMPLICATED SINCE B&R REPRESENTATIVES AND THEIR PARTNERS BELIEVE THAT THE THIRD COMPANY, PRUDENCIO CLAROS (BOLIVIAN), AND SOME CANADIAN ASSOCIATES HAVE BEEN WORKING ALL ALONG BEHIND THE SCENES KNOWING THAT THE ISRAELI COMPANY WOULD BE THROWN OUT AND THAT B&R WOULD BE DISQUALIFIED (IN WHICH THEY ALSO EXERCISED INFLUENCE WITH INALPRE AND SOME MINISTRIES. THEREFORE, IT WOULD APPEAR THAT THE HANDS OF PRUDENCIO CLAROS MAY NOT BE CLEAN EITHER. REPORTEDLY, THE PRUDENCIO CLAROS BID IS ABOUT \$9.5 LIMITED OFFICIAL USE

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MILLION AND MUST NOW ALSO BE NEGOTIATED DOWNWARD BY THEM WITH THE NEGOTIATING COMMISSION. HOWEVER, THEY NOW HAVE THE ADVANTAGE OF THE BROWN AND ROOT EXPERIENCE. WE WOULD PRESUME THAT TO BE ACCEPTABLE TO THE GOB AND NOT SHOW GROSS VIOLATION OF THE LICITATION PRINCIPLES THE NEGOTIATED PRICE WOULD HAVE BEEN SIGNIFICANTLY BELOW THE \$8.2 MILLION OFFERED BY BROWN AND ROOT AND REJECTED BY THE GOB.

4. THE PROBLEM WITH ALL CASES OF THIS TYPE OF ALLEGED FRAUD IS THAT IT IS VERY DIFFICULT TO ESTABLISH PROOF AS WAS SO QUICKLY POINTED OUT BY FERNANDO GUTIERREZ OF INALPRE AND OTHERS. THE LOCAL REPRESENTATIVES OF BROWN AND ROOT (SN. LOPEZ VIDELA) HAVE VERY GOOD CONTACTS AND THEY REPEATEDLY RECEIVED REPORTS OF PAYOFFS. HOWEVER, THERE IS LITTLE OF A STRICTLY LEGAL NATURE THAT CAN BE DONE SO FAR.

5. ACTION REQUESTED: THE EMBASSY HAS TAKEN CARE TO KEEP THE LOCAL DIRECTOR OF THE IDB INFORMED OF DEVELOPMENTS IN THIS CASE. WE UNDERSTAND THAT BROWN AND ROOT IS WORKING THROUGH CONGRESS TO MAKE THIS CASE KNOWN AND TO CLOSELY SCRUTINIZE IT WHEN AND IF FINANCING FOR THE PROJECTS COMES UP FOR APPROVAL AT THE IDB IN WASHINGTON. THE EMBASSY REQUESTS THAT THIS CASE

BE BROUGHT TO THE ATTENTION OF THE US DIRECTOR ON THE IDB BOARD AND THAT THE CASE BE VERY CLOSELY SCRUTINIZED WHEN IT COMES UP FOR APPROVAL OF FINANCING. NEW FACTS IN THIS CASE WILL BE REPORTED TO WASHINGTON AS THEY DEVELOP. THE EMBASSY HAS ALREADY EXPRESSED ITS CONCERN TO THE HEAD OF INALPRE AND THE MINISTER OF PLANNING.

6. COMMENT: WHILE WE DO NOT HAVE ALL THE FACTS IN THIS CASE, WE SUSPECT THAT BROWN AND ROOT'S CHARGES ARE WELL FOUNDED. CORRUPTION IN CONTRACTS CONCLUDED IN THE LAST DAYS OF THE BANZER GOVERNMENT HAS BEEN LEGION, BREAKING IT'S OWN PREVIOUS RECORD. THE AMBASSADOR INTENDS TO MAKE A STRONG DEMARCHE ON THIS GENERAL SUBJECT TO THE NEW GOVERNMENT BASED NOT ONLY ON OUR ANTIPATHY TO CORRUPT CONTRACTS BUT ALSO ON THEIR GREAT LIMITED OFFICIAL USE

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COST TO BOLIVIA.
BOEKER

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NNN

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